

Social Security Benefit Strategies

For many, when to elect to receive Social Security benefit payments may be the most important decision of their retirement. How much you receive from Social Security depends on three primary factors: your earnings record, when you elect, and how long you expect to live. Because you cannot go back and change your earnings record, and you have minimal control over how long you live, calculating an expected lifetime benefit largely hinges on when and how you elect to receive benefits.

If you elect early, you receive a smaller benefit over a longer period of time. If you elect later, you will get a larger benefit for a shorter period of time. Single people can do a simple "break-even" analysis to determine whether to take early benefits or wait. However, for married couples, the decision is much more complex.

For married couples, a simple break-even analysis will usually result in the wrong answer, costing you benefit dollars. Social Security offers three distinct benefits for married people: Retired Worker Benefit (based on your own earnings record), Spousal Benefit (provides your spouse with a benefit once you claim your own benefit), and Survivor Benefit (provides your spouse with a benefit after your death). A simple break-even analysis does not consider spousal and survivor benefits.

Deciding when and how to apply for social security benefits is a complicated decision that requires thoughtful consideration of many issues: personal health, family longevity, current disposable income needs and quality of life sacrificed for future higher

payments. When to start collecting Social Security benefits is a very personal decision and there is no easy answer.

In addition to answering the question about when to apply for social security benefits there are other concepts and strategies that can be applied that will also significantly alter your maximum family benefits. At Full Retirement Age (FRA) and beyond, you have several options to elect a limited benefit for a period of time; you then may switch to a larger benefit at some point in the future. There are two basic techniques: the "restricted application," and the "file and suspend." When you contact the Social Security office, generally the individual has been trained to help you determine the highest benefit you can get today, not necessarily over your lifetime. As a result, you are unlikely to hear about these techniques during a typical visit.

The File and Suspend Strategy is beneficial for married couples when both have reached their Full Retirement Age. The spouse with the highest benefit applies for social security benefits (immediately suspending benefits) which then allows the spouse to apply for spousal benefits. The spouse receives a benefit equal to 50% of the highest benefit, and both continue to accrue delayed retirement credits (DRC) increasing their benefit by 8% a year.

Example

Thomas (62) and Susan (62), Thomas has a benefit of \$2,200 and Susan has a benefit of \$1,000 at FRA. At FRA Thomas applies for benefits and suspends

until age 70. Jane applies for spousal benefits at her FRA and starts receiving monthly benefit payments of \$1,100. Assuming both live to their life expectancy, (Thomas 81 years and 2 months, Susan 84 years and 1 month) they both continue to accrue delayed retirement credits that increase their future checks by 8% a year until age 70, a 32 percent increase. Claiming Social Security benefits utilizing this strategy results in expected lifetime benefits of \$582,385, claiming when they are first eligible the expected lifetime benefit is \$534,427, a difference of \$47,958 or almost 9%. If they both live 5 years beyond their life expectancy the lifetime benefits are \$633,441 by claiming when first eligible and \$744,047 using the File and Suspend Strategy: a \$110,606 difference or 17.5% more in Social Security benefits over their combined lifetimes.

The Restricted Application Strategy is used to maximize social security benefits if both spouses have comparable incomes or if one spouse would like to retire and the other continues working.

Example

Ed (66) and Mary (66) both have a retirement benefit of \$1,000. Mary wants to continue working, Ed wants to retire. Ed applies for benefits and receives \$1,000 per month; Mary applies for spousal benefits (also referred to as a restricted application) and receives \$500 per month. Mary will continue to accrue DRC, and when she reaches 70 her monthly benefit will

be \$1,485 per month. Ed and Mary's lifetime benefit using this strategy is \$390,833 if they live to their life expectancy (Ed 82 years and 3 months, and Mary 84 years and 11 months), if they claim their benefits when they are first eligible their lifetime expected benefits are estimated at \$366,060 a 6.4% decrease over their lifetime. If they each live 5 years beyond their life expectancies their lifetime benefit utilizing this strategy is \$496,515 versus \$451,175 for filing for benefits when eligible which represents over a 9% reduction in lifetime benefits.

The Restricted Application Strategy is also available in the event of a divorce. The lower earning spouse is eligible for spousal benefits under the higher earning spouse's record if they were married for more than 10 years. The benefit can be terminated for several reasons, if the claimant remarries, if their former spouse dies, and other less likely scenarios.

Social Security benefit planning is an important part of any retirement plan. As life expectancy increases, so does the risk that retirees will outlive their assets. Social Security is one of the few assets that is adjusted annually for inflation, offers tax advantages, will pay as long as you live and is backed by a government promise. If you have questions and want to review your options and various strategies please consult your financial advisor.

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